Ndlambe Local Municipality

Annual Financial Statements

for the year ended 30 June 2019

General Information

Legal form of entity	Ndlambe Municipality (EC 105) is a local municipality performing the functions as set out in the Constitution. (Act no 108 of 1996)
Executive committee	
Mayor	Councillor PP Faxi - Corporate Services Portfolio
Speaker	Councillor NV Maphaphu
Executive Councillors	Councillor T Mazana - Infrastructure Portfolio
	Councillor N Xhasa - Community Protection Portfolio
	Councillor LR Schenk - Finance Portfolio
Councillors	Councillor TM Mbunge - MPAC Chair
	Councillor AL Marasi - Chief Whip
	Councillor N Ngamlashe
	Councillor A Ngqosha
	Councillor CB James
	Councillor M Raco
	Councillor JP Guest
	Councillor MW Yali
	Councillor ME Njibana
	Councillor M Mateti
	Councillor K Daweti
	Councillor PY Kani
	Councillor S Venene
	Councillor TD Mbekela
	Councillor X Runeli replacing Councillor L Shahzad *
Accounting Officer	R Dumezweni
Business address	47 Campbell Street Port Alfred 6170
Postal address	P O Box 13 Port Alfred 6170
Bankers	First National Bank
Auditors	Auditor General
Jurisdiction	The Ndlambe Local Municipalit includes the following areas: Port Alfred Bathurst Alexandria Kenton-on-Sea Cannon - Rocks Seafield Marselle

-* effective 5 February 2019

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Infrastructure Grant
FMG	Finance Management Grant
DESRAC	Department of Sport Recreation, Arts and Culture
DME	Department of Minerals and Energy
DWAF	Department of Water and Forestry
ACIP	Accelerated Capital Infrastructure Project
DoRA	Division of Revenue Act

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 4 to 83, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on its behalf by:

R Dumezweni
Accounting Officer

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	3	1 153 324	674 199
Receivables from non-exchange transactions	4	818 176	818 176
Consumer debtors	5	30 487 539	23 631 524
Cash and cash equivalents	6	45 325 049	64 263 364
Operating lease asset	7	609 752	371 317
		78 393 840	**89 758 580**
Non-Current Assets			
Investment property	8	185 229 772	186 405 896
Property, plant and equipment	9	654 888 302	606 408 192
Intangible assets	10	604 544	1 120 018
Heritage assets	11	16	16
Other financial assets	12	59 389	147 626
		840 782 023	**794 081 748**
Total Assets		**919 175 863**	**883 840 328**
Liabilities			
Current Liabilities			
Consumer deposits	14	2 088 404	1 999 159
Payables from exchange transactions	15	39 099 959	55 684 098
Unspent conditional grants and receipts	16	1 738 982	3 239 793
VAT payable	17	4 638 097	5 319 307
Financial liabilities - DBSA	18	2 169 244	1 931 498
Operating lease liability	7	15 125	29 726
Employee benefit obligation	19	3 596 681	3 038 705
Provisions	20	12 268 947	11 672 575
		65 615 439	**82 914 861**
Non-Current Liabilities			
Financial liabilities - DBSA	18	8 103 375	10 266 132
Employee benefit obligation	19	62 555 657	65 539 181
Provisions	20	27 886 468	22 499 623
		98 545 500	**98 304 936**
Total Liabilities		**164 160 939**	**181 219 797**
Net Assets		**755 014 924**	**702 620 531**
Accumulated surplus		755 014 924	702 620 539

* See Note 41

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	126 672 028	116 108 826
Burial services		343 948	237 937
Rental of facilities and equipment		374 505	811 545
Licences and permits		3 859 335	4 358 794
Housing debtor income		2 087 700	1 202 456
Other income	23	2 933 675	2 446 703
Interest received - investment	24	4 818 048	4 327 640
Interest received - Trade and other receivables		8 447 839	7 510 127
Total revenue from exchange transactions		**149 537 078**	**137 004 028**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	101 277 220	90 227 756
Environmental levies		5 267 299	3 771 048
Transfer revenue			
Government grants & subsidies	26	166 716 112	128 448 435
Public contributions and donations	27	12 100 566	70 734
Fines, Penalties and Forfeits		609 830	434 970
Total revenue from non-exchange transactions		**285 971 027**	**222 952 943**
Total revenue	21	**435 508 105**	**359 956 971**
Expenditure			
Employee related costs	28	(133 579 966)	(122 307 903)
Remuneration of councillors	29	(7 180 071)	(6 868 825)
Depreciation and amortisation	30	(32 317 461)	(35 065 185)
Finance costs	31	(1 302 583)	(1 507 849)
Lease rentals on operating lease		(1 747 974)	(2 012 034)
Debt Impairment	32	(27 238 121)	(28 484 691)
Bulk purchases	33	(60 017 802)	(57 553 924)
Contracted services		(51 675 734)	(37 135 499)
Transfers and Subsidies		(3 286 036)	(1 895 176)
General Expenses	34	(55 565 336)	(46 524 369)
Total expenditure		**(373 911 084)**	**(339 355 455)**
Operating surplus		**61 597 021**	**20 601 516**
Loss on disposal of assets and liabilities		(3 131 177)	(438 333)
Fair value adjustments	35	(6 071 455)	(5 144 912)
		(9 202 632)	**(5 583 245)**
Surplus for the year		**52 394 389**	**15 018 271**

* See Note 41

Statement of Changes in Net Assets

Figures in Rand		Accumulated surplus	Total net assets
Opening balance as previously reported		686 648 386	686 648 386
Adjustments			
Correction of errors	Note 41	953 882	953 882
Balance at 01 July 2017 as restated*		**687 602 268**	**687 602 268**
Changes in net assets			
Surplus for the year		15 018 271	15 018 271
Total changes		15 018 271	15 018 271
Restated* Balance at 01 July 2018		**702 620 535**	**702 620 535**
Changes in net assets			
Surplus for the year		52 394 389	52 394 389
Total changes		52 394 389	52 394 389
Balance at 30 June 2019		**755 014 924**	**755 014 924**

Note(s)

* See Note 41

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Rates and services		203 018 988	187 516 245
Government Grants and Subisdies		166 716 112	128 448 435
Interest income		13 265 887	11 837 766
Other receipts		5 631 205	4 084 129
		388 632 192	331 886 575
Payments			
Employee costs		(140 760 037)	(129 176 728)
Suppliers		(193 446 353)	(146 461 747)
Finance costs		(1 302 583)	(1 507 849)
		(335 508 973)	(277 146 324)
Net cash flows from operating activities	37	**53 123 219**	**54 740 251**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(70 154 371)	(37 887 687)
Proceeds from sale of property, plant and equipment	9	21 211	450 679
Purchase of other intangible assets	10	(3 363)	(169 786)
Net cash flows from investing activities		**(70 136 523)**	**(37 606 794)**
Cash flows from financing activities			
Repayment of financial liabilities - DBSA		(1 925 011)	(1 717 178)
Net cash flows from financing activities		**(1 925 011)**	**(1 717 178)**
Net increase/(decrease) in cash and cash equivalents		**(18 938 315)**	**15 416 279**
Cash and cash equivalents at the beginning of the year		64 263 364	48 847 085
Cash and cash equivalents at the end of the year	6	**45 325 049**	**64 263 364**

* See Note 41

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	108 980 508	1 280 000	**110 260 508**	126 672 028	**16 411 520**	47.1
Rendering of services	230 368	-	**230 368**	343 948	**113 580**	47.2
Rental of facilities and equipment	265 341	-	**265 341**	374 505	**109 164**	47.3
Interest received - Trade and other receivables	7 899 973	-	**7 899 973**	8 447 839	**547 866**	47.4
Licences and permits	9 284 083	-	**9 284 083**	3 859 335	**(5 424 748)**	47.5
Housing debtor income	4 019 598	-	**4 019 598**	2 087 700	**(1 931 898)**	47.6
Other income	3 950 343	-	**3 950 343**	2 933 675	**(1 016 668)**	47.7
Interest received - investment	2 712 098	-	**2 712 098**	4 818 048	**2 105 950**	47.8
Dividends received	35 904	-	**35 904**	-	**(35 904)**	47.9
Total revenue from exchange transactions	**137 378 216**	**1 280 000**	**138 658 216**	**149 537 078**	**10 878 862**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	103 976 211	-	**103 976 211**	101 277 220	**(2 698 991)**	47.10
Environmental levies	1 318 178	-	**1 318 178**	5 267 299	**3 949 121**	47.11
Transfer revenue						
Government grants & subsidies	123 659 019	47 739 525	**171 398 544**	166 716 112	**(4 682 432)**	47.12
Public contributions and donations	-	-	**-**	12 100 566	**12 100 566**	47.13
Fines, Penalties and Forfeits	3 168 320	-	**3 168 320**	609 830	**(2 558 490)**	47.14
Total revenue from non-exchange transactions	**232 121 728**	**47 739 525**	**279 861 253**	**285 971 027**	**6 109 774**	
Total revenue	**369 499 944**	**49 019 525**	**418 519 469**	**435 508 105**	**16 988 636**	
Expenditure						
Personnel	(144 401 687)	1 475 981	**(142 925 706)**	(133 579 966)	**9 345 740**	47.15
Remuneration of councillors	(7 576 585)	-	**(7 576 585)**	(7 180 071)	**396 514**	47.16
Depreciation and amortisation	(8 089 216)	-	**(8 089 216)**	(32 317 461)	**(24 228 245)**	47.17
Finance costs	(1 419 111)	-	**(1 419 111)**	(1 302 583)	**116 528**	47.18
Lease rentals on operating lease	(2 153 128)	(442 648)	**(2 595 776)**	(1 747 974)	**847 802**	47.19
Debt Impairment	(22 779 024)	-	**(22 779 024)**	(27 238 121)	**(4 459 097)**	47.20
Bulk purchases	(48 500 000)	1 074 322	**(47 425 678)**	(60 017 802)	**(12 592 124)**	47.21
Contracted Services	(51 000 016)	(3 980 007)	**(54 980 023)**	(51 675 734)	**3 304 289**	47.22
Transfers and Subsidies	(2 196 000)	(730 671)	**(2 926 671)**	(3 286 036)	**(359 365)**	47.23
General Expenses	(55 456 238)	(321 366)	**(55 777 604)**	(55 565 336)	**212 268**	47.24
Total expenditure	**(343 571 005)**	**(2 924 389)**	**(346 495 394)**	**(373 911 084)**	**(27 415 690)**	
Operating surplus	**25 928 939**	**46 095 136**	**72 024 075**	**61 597 021**	**(10 427 054)**	
Loss on disposal of assets and liabilities	-	-	**-**	(3 131 177)	**(3 131 177)**	47.25
Fair value adjustments	-	-	**-**	(6 071 455)	**(6 071 455)**	47.26

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**25 928 939**	**46 095 136**	**72 024 075**	**52 394 389**	**(19 629 686)**	

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2019											
Financial Performance											
Property rates	103 976 211	-	103 976 211	-		103 976 211	101 277 220		(2 698 991)	97 %	97 %
Service charges	108 980 508	1 280 000	110 260 508	-		110 260 508	126 672 028		16 411 520	115 %	116 %
Investment revenue	2 748 002	-	2 748 002	-		2 748 002	4 818 048		2 070 046	175 %	175 %
Transfers recognised - operational	98 190 469	1 399 000	99 589 469	-		99 589 469	98 470 530		(1 118 939)	99 %	100 %
Other own revenue	30 136 204	-	30 136 204	-		30 136 204	24 175 656		(5 960 548)	80 %	80 %
Total revenue (excluding capital transfers and contributions)	**344 031 394**	**2 679 000**	**346 710 394**	**-**		**346 710 394**	**355 413 482**		**8 703 088**	**103 %**	**103 %**
Employee costs	(144 401 687)	1 475 981	(142 925 706)	-	-	(142 925 706)	(133 579 966)	-	9 345 740	93 %	93 %
Remuneration of councillors	(7 576 585)	-	(7 576 585)	-	-	(7 576 585)	(7 180 071)	-	396 514	95 %	95 %
Debt impairment	(22 779 024)	-	(22 779 024)			(22 779 024)	(27 238 121)	-	(4 459 097)	120 %	120 %
Depreciation and asset impairment	(8 089 216)	-	(8 089 216)			(8 089 216)	(32 317 461)	-	(24 228 245)	400 %	400 %
Finance charges	(1 419 111)	-	(1 419 111)	-	-	(1 419 111)	(1 302 583)	-	116 528	92 %	92 %
Materials and bulk purchases	(48 500 000)	1 074 322	(47 425 678)	-	-	(47 425 678)	(60 017 802)	-	(12 592 124)	127 %	124 %
Transfers and grants	(2 196 000)	(730 671)	(2 926 671)	-	-	(2 926 671)	(3 286 036)	-	(359 365)	112 %	150 %
Other expenditure	(108 609 382)	(4 744 021)	(113 353 403)	-	-	(113 353 403)	(118 191 676)	-	(4 838 273)	104 %	109 %
Total expenditure	**(343 571 005)**	**(2 924 389)**	**(346 495 394)**	**-**	**-**	**(346 495 394)**	**(383 113 716)**	**-**	**(36 618 322)**	**111 %**	**112 %**
Surplus/(Deficit)	**460 389**	**(245 389)**	**215 000**	**-**		**215 000**	**(27 700 234)**		**(27 915 234)**	**(12 884)%**	**(6 017)%**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	25 468 550	46 340 525	71 809 075	-		71 809 075	68 245 582		(3 563 493)	95 %	268 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	12 100 566		12 100 566	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**25 928 939**	**46 095 136**	**72 024 075**	**-**		**72 024 075**	**52 645 914**		**(19 378 161)**	**73 %**	**203 %**
Surplus/(Deficit) for the year	**25 928 939**	**46 095 136**	**72 024 075**	**-**		**72 024 075**	**52 645 914**		**(19 378 161)**	**73 %**	**203 %**

Capital expenditure and funds sources

Total capital expenditure	44 345 446	29 307 668	73 653 114	-		73 653 114	70 157 734		(3 495 380)	95 %	158 %

The Appropriation Statement does not form part of the AFS and is therefore unaudited.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency & Rounding

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. All amounts are rounded to the nearest Rand.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management’s estimates.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, supply demand, together with economic factors such as exchange rates inflation interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

1.4 Investment property (continued)

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 8).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	50 Years
Plant and machinery	Straight line	15 Years

1.5 Property, plant and equipment (continued)

Motor vehicles	Straight line	5 - 15 Years
Office equipment	Straight line	3 - 5 Years
IT equipment	Straight line	3 - 5 Years
Community	Straight line	10 - 30 Years
Electricity Network	Straight line	20 - 30 Years
Roads	Straight line	20 Years
Wastewater Network	Straight line	20 Years
Water Network	Straight line	20 Years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 9).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Accounting Policies

1.6 Intangible assets (continued)

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3 Years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Accounting Policies

1.7 Heritage assets (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset’s net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset’s remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset’s carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset’s carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

1.8 Financial instruments (continued)

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

1.8 Financial instruments (continued)

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumer Debtors	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables	Financial liability measured at amortised cost
DBSA Loans	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

1.10 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.11 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

1.12 Impairment of non-cash-generating assets (continued)

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

[Specify judgements made]

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

1.13 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.13 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.15 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

1.16 Revenue from non-exchange transactions (continued)

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

Accounting Policies

1.20 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

Accounting Policies

1.23 Budget information (continued)

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.24 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.26 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of the financial period the municipality determined commitments in respect of capital expenditure in terms of GRAP 17 that has been approved and contracted for.

Accounting Policies

1.27 Material Losses (Water and Electricity)

Water and electricity losses are required to be disclosed as part of the material loss disclosure of the MFMA Section 125. Losses are calculated on the following basis -

Nr of units of lost supply, being the difference between what was supplied and what has been sold at the per unit tariff rate.

The unit tariff rate, in the case of electricity being the lower rate of Kwh as charged per council and the case of water the lowest rate per Kl (incl VAT).

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 12 (as amended 2016): Inventories	01 April 2018	The impact of the is not material.
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	The impact of the is not material.
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	The impact of the is not material.
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	The impact of the is not material.
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	The impact of the is not material.
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	The impact of the is not material.
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	The impact of the is not material.
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	The impact of the is not material.
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	The impact of the is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2099	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2099	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2099	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	01 April 2019	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact

3. Inventories

Game	57 000	57 000
Water	117 933	116 272
Stores, materials and fuels	978 391	500 927
	1 153 324	**674 199**

No Inventories were written down to net realisable value.

Game is held for recreational purposes in the form of viewing of game at the reserves by the publuc. These animals are held for the enjoyment of the public and not for resale. It is not the intention of the municipality to trade in wildlife and as such these animals have not been recognised as Biological assets. Game is measured at the lower of cost or current replacement cost.

Figures in Rand	2019	2018

4. Receivables from non-exchange transactions

Deposits	85 500	85 500
Housing Sundry	125 061	125 061
Staff taxes to SARS refundable	281 121	281 121
Recoverable legal expenses	326 494	326 494
	818 176	**818 176**

The deposits are made up of an amount of R58 000 paid to Eskom for street lighting, R15 000 relating to fuel deposit card and R12 500 paid to Kenton on Sea Garage for a petrol deposit.

Fruitless and wasteful expenditure comprises of an amount refundable from NG Ngesi, former Municipal Manager, for the acknowledgement of debt made by him for laptops paid for by the municipality but never delivered.

5. Consumer debtors

Gross balances		
Rates	45 902 521	40 885 028
Electricity	17 744 489	16 524 871
Water	31 038 059	28 955 132
Waste water	12 316 798	12 928 942
Refuse	15 492 974	13 759 994
Environmental Levies	5 178 172	4 272 214
Housing rental	1 033 988	911 393
Service charges and other	12 087 118	11 205 388
	140 794 119	**129 442 962**
Less: Allowance for impairment		
Provision for Doubtful debts - Receivables from Non-exchange Transactions	(29 727 435)	(35 474 483)
Provision for Doubtful debts - Receivables from Exchange Transactions	(80 579 145)	(70 336 955)
	(110 306 580)	**(105 811 438)**
Net balance	**30 487 539**	**23 631 524**
Rates		
Current (0 -30 days)	7 983 524	7 160 258
31 - 60 days	3 256 848	2 804 406
61 - 90 days	1 905 645	1 628 052
91 - 120 days	1 524 233	1 355 813
121 - 365 days	6 936 175	6 598 860
> 365 days	24 296 095	21 332 512
	45 902 520	**40 879 901**
Electricity		
Current (0 -30 days)	6 911 076	6 124 855
31 - 60 days	1 695 212	1 641 875
61 - 90 days	909 893	602 230
91 - 120 days	543 730	485 419
121 - 365 days	2 128 654	2 044 989
> 365 days	5 555 924	5 625 503
	17 744 489	**16 524 871**

Figures in Rand	2019	2018

5. Consumer debtors (continued)

Water		
Current (0 -30 days)	4 694 397	4 622 428
31 - 60 days	1 518 329	1 284 725
61 - 90 days	982 652	968 368
91 - 120 days	912 669	835 124
121 - 365 days	4 808 853	4 309 991
> 365 days	18 121 159	16 935 725
	31 038 059	**28 956 361**

Waste water		
Current (0 -30 days)	989 380	916 505
31 - 60 days	483 542	439 806
61 - 90 days	402 118	368 315
91 - 120 days	338 609	304 164
121 - 365 days	1 809 661	1 825 666
> 365 days	8 293 488	9 074 486
	12 316 798	**12 928 942**

Refuse		
Current (0 -30 days)	1 305 745	1 185 208
31 - 60 days	643 286	570 601
61 - 90 days	487 816	436 727
91 - 120 days	428 257	391 602
121 - 365 days	2 408 796	2 196 973
> 365 days	10 219 074	8 978 883
	15 492 974	**13 759 994**

Environmental levies		
Current (0 -30 days)	599 014	349 561
31 - 60 days	203 546	176 593
61 - 90 days	154 226	134 870
91 - 120 days	138 229	123 445
121 - 365 days	775 182	718 249
> 365 days	3 307 975	2 769 496
	5 178 172	**4 272 214**

Housing rental		
Current (0 -30 days)	67 162	71 616
31 - 60 days	43 200	37 840
61 - 90 days	46 722	37 437
91 - 120 days	41 187	35 458
121 - 365 days	231 372	207 797
> 365 days	604 345	521 245
	1 033 988	**911 393**

Service Charges and other		
Current (0 -30 days)	336 621	252 633
31 - 60 days	199 421	170 800
61 - 90 days	185 332	175 970
91 - 120 days	195 163	163 981
121 - 365 days	1 229 246	1 099 498
> 365 days	9 941 335	9 342 506
	12 087 118	**11 205 388**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

5. Consumer debtors (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(105 811 438)	(90 761 509)
Contributions to allowance	(27 238 121)	(28 484 692)
Debt impairment written off against allowance	22 742 979	13 434 763
	(110 306 580)	**(105 811 438)**

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2019, R 11 471 364 (2018: R 7 301 471) were past due but not impaired.

Consumer debtors impairment process:

The muncipality has adopted a policy for the determination of the provision for doubtful debts based on the national treasury principals. These principals are used to rate debtors based on various risk criteria associated with the type and status of their accounts. Furthermore an analysis is undertaken to accumulate the risk associated with the long outstanding nature of each account. These factors produce an overall risk factor which is utilised to prepare an impaired amount. The collectable cashflow is therefore determined and present valued based on the average days outstanding on each account. The overall impairment is thereafter pro-rata'ed per non-exchange and exchange portions of each debtors' account. Lastly this is accumulated to produce the provision for impairment as raised at year end. Refer to the municipal policy for full details.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5 111	5 111
Bank balances	4 166 617	19 698 312
Short-term deposits	41 153 321	44 559 941
	45 325 049	**64 263 364**

Ndlambe Municipality also holds four bank accounts with the New Republic Bank Limited. These accounts related to bank investments made by Port Alfred TLC. New Republic Bank Limited went into liquidation in 1999. These accounts do not show any withdrawable funds/balances, but are still active on bank confirmation searches.

Cash and cash equivalents pledged as collateral

Total financial assets ceded to DBSA	1 300 000	1 300 000

There is a cession recorded against the account (FNB-71078484865) to this value.
Refer to note regarding DBSA loans.

6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	**30 June 2018**	**30 June 2017**	**30 June 2019**	**30 June 2018**	**30 June 2017**
FIRST NATIONAL BANK General Account-Current	1 319 214	15 221 653	5 385 990	1 265 550	15 502 854	5 725 507
FIRST NATIONAL BANK Current Account-Housing	2 005 467	3 360 906	3 259 025	2 005 467	3 360 906	3 259 025
FIRST NATIONAL BANK Current Account - Revolving	900 047	846 787	370 302	900 047	834 554	370 302
	29 793 930	**25 237 291**	**15 433 603**	**29 793 930**	**25 237 291**	**15 433 603**
FIRST NATIONAL BANK CRR Call Accounts	23 529 898	18 973 259	9 169 571	23 529 898	18 973 259	9 169 571
FIRST NATIONAL BANK Fixed Deposit Account DBSA	3 124 438	3 124 438	3 124 438	3 124 438	3 124 438	3 124 438
FIRST NATIONAL BANK Call Account - Eskom	3 139 594	3 139 594	3 139 594	3 139 594	3 139 594	3 139 594
	7 449 702	**13 487 721**	**13 563 249**	**7 449 702**	**13 487 721**	**13 563 249**
STANDARD BANK Notice Bank	-	169 590	163 510	-	169 590	163 510
STANDARD BANK Notice Bank - Alex	176 778	-	-	176 778	-	-
STANDARD BANK Call Account - 004	-	-	41	-	-	41
STANDARD BANK Call Account - 003	163 676	7 709	431 308	163 676	7 709	431 308
STANDARD BANK Call Account - 006	-	-	331 026	-	-	331 026
STANDARD BANK Call Account - 007	-	2 011	4 433	-	2 011	4 433
STANDARD BANK Call Account - Fire Officer 008	99 006	454 612	278 971	99 006	454 612	278 971
STANDARD BANK Upgrade road 009	968 894	100 851	106 504	968 894	100 851	106 504
STANDARD BANK Bathurts Water 010	-	10 866	-	-	10 866	-
STANDARD BANK Bathurts Water 011	6 405	8 146	6 154	6 405	8 146	6 154
STANDARD BANK PMU 012	138 641	124 187	65	138 641	124 187	65
STANDARD BANK INEG 014	-	-	240 147	-	-	240 147
STANDARD BANK Upgrade Roads 015	129 010	136 811	11 820 713	129 010	136 811	11 820 713
STANDARD BANK LED Mobile 016	14 266	180 954	180 377	14 266	180 954	180 377
STANDARD BANK Equitable Share Councillors 017	2 281 563	1 522 253	-	2 281 563	1 522 253	-
STANDARD BANK Revolving Account 018	491 000	10 769 731	-	491 000	10 769 731	-
STANDARD BANK DEDEA West Beach 020	-	-	-	-	-	-
STANDARD BANK Drought Relief 021	2 980 463	-	-	2 980 463	-	-

6. Cash and cash equivalents (continued)

	3 921 216	**5 832 645**	**10 490 189**	**3 921 216**	**5 832 645**	**10 490 189**
INVESTEC BANK Call Account - Intern 502	-	-	5 574 874	-	-	5 574 874
INVESTEC BANK Call Account - FMG 503	-	489 348	-	-	489 348	-
INVESTEC BANK Call account - Essential Oil 504	-	80 367	175 420	-	80 367	175 420
INVESTEC BANK Call account -Chicory 506	55 555	132 523	447 619	55 555	132 523	447 619
INVESTEC BANK Call Account-IDP Process 510	-	-	13 818	-	-	13 818
INVESTEC BANK Call Account-EC Sports 511	1 992 200	2 314 324	2 766 919	1 992 200	2 314 324	2 766 919
INVESTEC BANK Call Account -LG Seta 512	678	183 181	179 777	678	183 181	179 777
INVESTEC BANK EPWP 514	114 741	-	158 361	114 741	-	158 361
INVESTEC BANK LED Sec Ass 515	-	-	528	-	-	528
INVESTEC BANK Call Account-PrepwaterMete523	1 430 265	1 105 805	707 348	1 430 265	1 105 805	707 348
INVESTEC BANK Call Account-LED Initia 524	19 975	19 971	44 629	19 975	19 971	44 629
INVESTEC BANK Call Account-Retention 526	105 430	422 699	420 896	105 430	422 699	420 896
INVESTEC BANK Call Account-DME 509	129 468	129 442	-	129 468	129 442	-
INVESTEC BANK Call Account-Disaster relief 529	35 811	954 985	-	35 811	954 985	-
INVESTEC BANK Call Acc-MIG Water Ret. 530	37 093	-	-	37 093	-	-
Total	**45 389 576**	**63 987 003**	**48 502 358**	**45 335 912**	**64 255 971**	**48 841 875**

7. Operating lease asset & liabilities

	2019	2018
Current assets	609 752	371 317
Current liabilities	(15 125)	(29 726)
	594 627	**341 591**

8. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	190 818 903	(5 589 131)	185 229 772	190 818 903	(4 413 007)	186 405 896

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

8. Investment property (continued)

Reconciliation of investment property - 2019

	Opening balance	Depreciation	Total
Land	156 571 000	-	156 571 000
Buildings	29 834 896	(1 176 124)	28 658 772
	186 405 896	**(1 176 124)**	**185 229 772**

Reconciliation of investment property - 2018

	Opening balance	Disposals	Depreciation	Total
Land	156 597 000	(26 000)	-	156 571 000
Buildings	31 011 291	-	(1 176 395)	29 834 896
	187 608 291	**(26 000)**	**(1 176 395)**	**186 405 896**

Pledged as security

No Investment Property has been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

- None

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

- None

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

Amounts recognised in surplus or deficit

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	82 260 691	-	82 260 691	82 260 691	-	82 260 691
Buildings	129 714 683	(39 340 035)	90 374 648	114 339 423	(36 118 606)	78 220 817
Plant and machinery	9 115 583	(6 734 534)	2 381 049	8 610 584	(6 275 510)	2 335 074
Motor vehicles	33 988 742	(21 458 577)	12 530 165	28 113 587	(18 832 485)	9 281 102
Office equipment	8 926 669	(6 644 311)	2 282 358	8 726 777	(6 019 984)	2 706 793
IT equipment	5 458 563	(4 172 301)	1 286 262	5 261 722	(4 015 809)	1 245 913
Electricity network	145 478 277	(82 131 643)	63 346 634	145 478 277	(78 843 315)	66 634 962
Work in Progress	32 491 302	-	32 491 302	19 359 885	-	19 359 885
Roads	448 632 753	(276 363 171)	172 269 582	431 975 292	(267 233 391)	164 741 901
Wastewater network	180 522 884	(61 053 601)	119 469 283	180 837 194	(56 066 443)	124 770 751
Water network	203 021 411	(126 825 083)	76 196 328	181 275 321	(126 425 018)	54 850 303
Total	**1 279 611 558**	**(624 723 256)**	**654 888 302**	**1 206 238 753**	**(599 830 561)**	**606 408 192**

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	82 260 691	-	-	-	-	82 260 691
Buildings	78 220 817	12 092 738	(200 390)	3 591 999	(3 330 516)	90 374 648
Plant and machinery	2 335 074	510 803	(2 420)	-	(462 408)	2 381 049
Motor vehicles	9 281 102	5 874 998	-	-	(2 625 935)	12 530 165
Office equipment	2 706 793	240 736	(4 760)	-	(660 411)	2 282 358
IT equipment	1 245 913	367 411	(3 808)	-	(323 254)	1 286 262
Electrical network	66 634 962	-	-	-	(3 288 328)	63 346 634
Work in progress	19 359 885	17 958 857	-	(4 827 440)	-	32 491 302
Roads	164 741 901	16 324 701	(171 407)	1 235 441	(9 861 054)	172 269 582
Wastewater network	124 770 751	-	(114 044)	-	(5 187 424)	119 469 283
Water network	54 850 303	28 884 694	(2 655 559)	-	(4 883 110)	76 196 328
	606 408 192	**82 254 938**	**(3 152 388)**	**-**	**(30 622 440)**	**654 888 302**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	82 260 691	-	-	-	-	82 260 691
Buildings	79 614 123	606 323	(598 792)	1 805 461	(3 206 298)	78 220 817
Plant and machinery	3 320 304	222 074	(45 724)	-	(1 161 580)	2 335 074
Motor vehicles	9 997 892	2 364 586	(129 876)	-	(2 951 500)	9 281 102
Office equipment	2 975 030	492 119	-	-	(760 356)	2 706 793
IT equipment	1 590 579	253 762	-	-	(598 428)	1 245 913
Electrical Network	68 683 574	1 226 313	-	-	(3 274 925)	66 634 962
Work in Progress	5 307 378	19 083 570	-	(5 031 063)	-	19 359 885
Roads	158 408 792	13 709 674	(89 653)	3 225 602	(10 512 514)	164 741 901
Wastewater network	130 023 725	-	-	-	(5 252 974)	124 770 751
Water network	59 650 943	-	-	-	(4 800 640)	54 850 303
	601 833 031	**37 958 421**	**(864 045)**	**-**	**(32 519 215)**	**606 408 192**

Figures in Rand	2019	2018

9. Property, plant and equipment (continued)

Pledged as security

No assets have been pledged as security.

Property, plant and equipment in the process of being constructed or developed

	2019	2018
Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)		
Building of Library at TT Jonas Centre Project has not been implemented beyond the design phase.	146 094	-
Netball Court - Kenton-on-Sea Project has not been implemented beyond the design phase and will not be implemented.	73 527	-
	219 621	**-**

Reconciliation of Work-in-Progress 2019

	Included within Buildings	Included within Roads	Included within Water network	Included within Sewerage network	Total
Opening balance	3 811 620	1 235 440	14 312 824	-	19 359 884
Additions/capital expenditure	-	2 872 455	10 532 799	4 553 603	17 958 857
Transferred to completed items	(3 591 999)	(1 235 440)	-	-	(4 827 439)
	219 621	**2 872 455**	**24 845 623**	**4 553 603**	**32 491 302**

Reconciliation of Work-in-Progress 2018

	Included within Buildings	Included within Roads	Included within Water network	Total
Opening balance	2 025 082	3 282 296	-	5 307 378
Additions/capital expenditure	3 591 999	1 178 746	14 312 824	19 083 569
Transferred to completed items	(1 805 461)	(3 225 602)	-	(5 031 063)
	3 811 620	**1 235 440**	**14 312 824**	**19 359 884**

Expenditure incurred to repair and maintain property, plant and equipment

	2019	2018
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	10 180 914	9 625 051

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Figures in Rand	2019	2018

10. Intangible assets

	2019			2018		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	3 436 018	(2 831 474)	604 544	3 490 339	(2 370 321)	1 120 018

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software, other	1 120 018	3 363	(518 837)	604 544

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	2 319 806	169 786	(1 369 574)	1 120 018

11. Heritage assets

	2019			2018		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Conservation areas	16	-	16	16	-	16

Reconciliation of heritage assets 2019

	Opening balance	Total
Conservation areas	16	16

Reconciliation of heritage assets 2018

	Opening balance	Total
Conservation areas	16	16

Age and/or condition of heritage assets

The following information relating to age and/or condition of heritage assets is provided for better appreciation:
Haritage assets all are of considerable age as they mostly relate to remains of old infrastructure, such as the pier, mooring posts and parts of ship wrecks. These have ages between 60 - 150 years.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

11. Heritage assets (continued)

Restrictions on heritage assets

The heritage assets, disclosed below have restrictions in terms of their disposal due to the fact that they are registered with the National Heritage Council and therefore cannot and will not be disposed of in the course of operations of the municipality.

Carrying value of heritage assets with restrictions:

	2019	2018
Conservation areas	16	16
Disposal restrictions due to registration at National Heritage Council		

12. Other financial assets

	2019	2018
Designated at fair value		
Listed shares	59 389	147 626
Old Mutual shares held at fair value determined at the quoted market value.		
Non-current assets		
Designated at fair value	59 389	147 626

13. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At fair value	At amortised cost	Total
Receivables from non-exchange transactions	-	818 176	818 176
Consumer debtors	-	30 487 539	30 487 539
Cash and cash equivalents	-	45 325 049	45 325 049
Other financial assets	59 389	-	59 389
	59 389	**76 630 764**	**76 690 153**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	39 099 959	39 099 959
Financial Liabilities - DBSA	10 272 619	10 272 619
	49 372 578	**49 372 578**

2018

Financial assets

	At fair value	At amortised cost	Total
Receivables from non-exchange transactions	-	818 176	818 176
Consumer debtors	-	23 631 524	23 631 524
Cash and cash equivalents	-	64 263 366	64 263 366
Other financial assets	147 626	-	147 626
	147 626	**88 713 066**	**88 860 692**

Figures in Rand	2019	2018

13. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	55 684 098	55 684 098
Financial Liabilities - DBSA	12 197 630	12 197 630
	67 881 728	**67 881 728**

14. Consumer deposits

Electricity	1 606 351	1 602 105
Water	461 603	397 054
Housing rental	20 450	-
	2 088 404	**1 999 159**

15. Payables from exchange transactions

Trade payables	3 236 707	6 929 338
Payments received in advanced	6 208 549	7 771 680
Accrued leave pay	6 457 898	5 829 749
Accrued bonus	3 041 668	2 874 021
Accrued expense	10 106 331	11 454 173
Deposits received	797 994	805 556
Other payables	20 339	20 339
Unidentified Direct Deposits	3 393 839	2 407 047
Retention monies	2 134 848	2 450 897
SALA Pension Fund	281 133	1 284 494
Human Settlements	2 005 468	3 360 906
SAMWU Pension Fund	-	9 244 136
Overtime Accrual	807 801	644 378
DWAF - ACIP	607 384	607 384
	39 099 959	**55 684 098**

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
IDC Chicory	29 310	112 623
MIG	-	-
MSIG	41	41
Municipal Disaster Grant	4 777	919 159
EC Sports, Arts and Culture	1 548 512	1 783 788
LG SETA	49 735	49 735
SBDM: Fire Officers	27 424	328 931
DME	2 967	2 967
EPWP	656	3 264
FMG	1 550	221
SBDM LED Grants	39 064	39 064
EC Greenest Town	34 946	-
Water Services Infrastructure Grant	-	-
	1 738 982	**3 239 793**

Figures in Rand	2019	2018

16. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	3 239 793	14 929 359
Additions during the year	66 295 995	32 885 000
Income recognition during the year	(67 796 806)	(44 574 566)
	1 738 982	**3 239 793**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 26 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

17. VAT payable

Tax refunds payables	4 638 097	5 319 307

18. Financial liabilities - DBSA

At amortised cost		
DBSA Loan 101161/2 20 Years @ 10.89%	4 417 155	4 891 445
DBSA Loan 13478/101 20 Years @ 17%	1 166 918	1 800 499
DBSA Loan 102557/1 15 Years @ 8.81%	4 688 546	5 505 686
	10 272 619	**12 197 630**
Total other financial liabilities	**10 272 619**	**12 197 630**
Non-current liabilities		
At amortised cost	8 103 375	10 266 132
Current liabilities		
At amortised cost	2 169 244	1 931 498

19. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

19. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(62 299 488)	(60 823 620)
Benefits paid during the year	2 351 016	2 335 495
Current service costs	(3 207 018)	(3 236 055)
Interest Costs	(5 865 484)	(6 401 589)
Actuarial Gain/(Loss)	9 849 516	5 826 281
	(59 171 458)	**(62 299 488)**
Non-current liabilities	(56 748 099)	(59 971 688)
Current liabilities	(2 423 359)	(2 327 800)
	(59 171 458)	**(62 299 488)**

The municipality's best estimate of the contributions expected to be paid to the plan after reporting date is - 2019: R 2 423 359 (2018: R 2 327 800)

Net expense recognised in the statement of financial performance

Current service cost	3 207 018	3 236 055
Interest cost	5 865 484	6 401 589
Actuarial (gains) / losses	(9 849 516)	(5 826 281)
Benefits paid during the year	(2 351 016)	(2 338 495)
	(3 128 030)	**1 472 868**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9,39 %	9,59 %
Expected rate of return on assets (Net discount rate)	2,38 %	2,05 %
Expected rate of return on reimbursement rights	6,85 %	7,39 %
Actual return on reimbursement rights	2,38 %	2,05 %
Average retirement age (Years)	62	63

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

19. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on defined benefit obligation - movement in health care inflation	68 550 000	51 589 000
Effect on Interest Costs	6 815 800	5 091 700
Effect on Services costs	3 964 500	2 615 800

Amounts for the current and previous four years are as follows:

	2019 R	2018 R	2017 R	2016 R	2015 R
Defined benefit obligation	(59 171 458)	(62 299 488)	(60 823 620)	(60 848 841)	(49 365 000)

Long service Awards

Ndlambe Municipality offers long service bonus awards to active employees, the amount of which is dependent on the annual salary of the individual employee. Councillors are not eligible for this benefit and were not taken into account. The award comprises of a percentage of their annual salaries as well as additional leave days to employees at the end of the specified time period.

The amounts recognised in the statement of financial position are as follows:

	2019	2018
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(6 278 398)	(6 266 372)
Benefits paid during the year	322 153	371 689
Current service costs	(711 555)	(635 756)
Interest Costs	(486 417)	(499 437)
Actuarial Gain/(Loss)	173 337	751 478
	(6 980 880)	**(6 278 398)**
Non-current liabilities	(5 807 558)	(5 567 493)
Current liabilities	(1 173 322)	(710 905)
	(6 980 880)	**(6 278 398)**

The municipality's best estimate of the contributions expected to be paid to the plan after reporting date is -
2019: R1 173 322 (2018: R 710 905)

Net expense recognised in the statement of financial performance

	2019	2018
Current service cost	711 555	635 756
Interest cost	486 417	499 437
Actuarial (gains) / losses	(173 337)	(751 478)
Benefits paid during the year	(322 153)	(371 689)
	702 482	**12 026**

Key assumptions used

Assumptions used at the reporting date:

	2019	2018
Discount rates used	7,96 %	8,28 %

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

19. Employee benefit obligations (continued)

General earnings inflation rate (long term)	5,44 %	5,98 %
Net discount rate	2,39 %	2,17 %
Average retirement age (Years)	62	63

Other assumptions

Assumed inflation & discount trends have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed inflation & discount rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on Long service Award - discount rate	7 374 000	6 623 000
Effect on Interest Costs	515 600	459 700
Effect on Current Services costs	759 500	668 100

Amounts for the current and previous four years are as follows:

	2019 R	2018 R	2017 R	2016 R	2015 R
Long Service Awards	(6 980 880)	(6 278 398)	(6 266 372)	(5 545 291)	(5 529 000)

20. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Fair Value Adjustment	Interest costs/unwinding of Interest	Total
Environmental rehabilitation	34 172 198	2 565 998	3 417 219	40 155 415

Reconciliation of provisions - 2018

	Opening Balance	Fair Value Adjustment	Interest costs/unwinding of Interest	Total
Environmental rehabilitation	28 998 840	2 128 479	3 044 879	34 172 198

	2019	2018
Non-current liabilities	27 886 468	22 499 623
Current liabilities	12 268 947	11 672 575
	40 155 415	**34 172 198**

Ndlambe Municipality operates 10 landfill sites which by law will have to be permitted and closed in accordance with the "Minimum Requirements" and in accordance with the Environment Conservation Act. (Act no.73 of 1989) Closure will involve, inter alia, the application of final cover, topsoiling, vegetating, drainage maintenance and leachate management.

Closure of the landfill sites are dependant on a number of external factors, such as amongst others, waste minimisation and population changes. During the prior year there has been a court order to affect the closure of the Bushmens' landfill site, thereby directly affecting the provision estimation as the closure is now projected within the timeframes set out by the court ruling.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

21. Revenue

Burial services	343 948	237 937
Service charges	126 672 028	116 108 826
Rental of facilities and equipment	374 505	811 545
Interest received - trade and other receivables	8 447 839	7 510 127
Licences and permits	3 859 335	4 358 794
Housing debtor income	2 087 700	1 202 456
Other income	2 933 675	2 446 703
Interest received - investment	4 818 048	4 327 640
Property rates	101 277 220	90 227 756
Environmental levies	5 267 299	3 771 048
Government grants & subsidies	166 716 112	128 448 435
Public contributions and donations	12 100 566	70 734
Fines, Penalties and Forfeits	609 830	434 970
	435 508 105	**359 956 971**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	126 672 028	116 108 826
Rendering of services	343 948	237 937
Rental of facilities and equipment	374 505	811 545
Interest received - trade and other receivables	8 447 839	7 510 127
Licences and permits	3 859 335	4 358 794
Housing debtor income	2 087 700	1 202 456
Other income	2 933 675	2 446 703
Interest received - investment	4 818 048	4 327 640
	149 537 078	**137 004 028**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	101 277 220	90 227 756
Environmental levies	5 267 299	3 771 048
Transfer revenue		
Government grants & subsidies	166 716 112	128 448 435
Public contributions and donations	12 100 566	70 734
Fines, Penalties and Forfeits	609 830	434 970
	285 971 027	**222 952 943**

22. Service charges

Sale of electricity	65 031 122	59 433 879
Sale of water	36 842 033	33 391 478
Solid waste	13 969 944	13 095 245
Sewerage and sanitation charges	10 828 929	10 188 224
	126 672 028	**116 108 826**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

23. Other income

Building plan fees	1 404 186	1 327 331
Encroachments	2 237	1 558
Insurance claim refund	577 505	406 982
Refuse bag sales	-	7 553
Subdivisions	13 779	3 499
Sundry income	565 087	344 808
Valuation rolls	2 209	8 071
Town planning income	55 821	20 064
Camping fees	312 851	326 837
	2 933 675	**2 446 703**

24. Investment revenue

Interest revenue

Bank	4 818 048	4 327 640

25. Property rates

Rates received

Property rates	101 277 220	90 227 756

Valuations

All	12 747 034 830	12 978 387 519

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis.

Figures in Rand	2019	2018

26. Government grants and subsidies

Operating grants

Unconditional: Equitable share	84 115 000	78 151 000
Unconditional: Equitable share: Cllrs & Ward Contribution	4 126 000	3 927 000
Unconditional: LG SETA Grants	240 506	183 233
Unconditional: SBM Grant Revenue	558 757	300 000
Unconditional: Environmental Health Subsidy	1 292 150	1 312 633
Financial Management Grant	1 968 670	1 901 439
Chicory Grants	114 513	367 566
EC Greenest Town	265 054	-
Sarah Baartman District Mun(SBDM) Fire Grants	654 635	-
Municipal Infrastructure Grant	1 235 587	-
Library Grant (DESRAC)	2 985 276	3 047 470
Sarah Baartman District Municipality (SBDM) LED Grants	-	190 242
Disaster Management Grant	914 382	30 841
Department of Environmental Affairs	-	210 858
	98 470 530	**89 622 282**

Capital grants

Unconditional: OTP Grant	8 555 693	-
Sarah Baartman District Mun(SBDM) Fire Grants(Capital)	304 868	294 140
Water Services Infrastructure Grant (Capital)	32 809 000	-
Municipal Infrastructure Grant (Capital)	25 573 413	36 432 013
Integrated National Elect Grant (INEG)(Capital)	-	1 100 000
Expanded Public Works Prog Grant (EPWP) (Capital)	1 002 608	1 000 000
	68 245 582	**38 826 153**
	166 716 112	**128 448 435**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	66 295 995	32 885 000
Unconditional grants received	98 919 306	83 873 866
	165 215 301	**116 758 866**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

IDC Chicory - LED

Balance unspent at beginning of year	112 623	360 188
Current-year receipts	-	120 000
Conditions met - transferred to revenue	(83 313)	(367 565)
	29 310	**112 623**

Conditions still to be met - remain liabilities (see note 16).

MIG

Balance unspent at beginning of year	-	11 717 012
Current-year receipts	26 809 000	24 715 000
Conditions met - transferred to revenue	(26 809 000)	(36 432 012)
	-	**-**

Figures in Rand	2019	2018

26. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 16).

MSIG

Balance unspent at beginning of year	41	41

Conditions still to be met - remain liabilities (see note 16).

Department of Environmental Affairs

Balance unspent at beginning of year	-	210 858
Conditions met - transferred to revenue	-	(210 858)
	-	**-**

Conditions still to be met - remain liabilities (see note 16).

Disaster Management Grant

Balance unspent at beginning of year	919 159	-
Current-year receipts	-	950 000
Conditions met - transferred to revenue	(914 382)	(30 841)
	4 777	**919 159**

Conditions still to be met - remain liabilities (see note 16).

EC Sports/Arts and Culture

Balance unspent at beginning of year	1 783 788	2 081 257
Current-year receipts	2 750 000	2 750 000
Conditions met - transferred to revenue	(2 985 276)	(3 047 469)
	1 548 512	**1 783 788**

Conditions still to be met - remain liabilities (see note 16).

LG SETA

Balance unspent at beginning of year	49 735	49 735

Conditions still to be met - remain liabilities (see note 16).

SBDM: Fire Officers

Balance unspent at beginning of year	328 931	273 071
Current-year receipts	657 995	350 000
Conditions met - transferred to revenue	(959 502)	(294 140)
	27 424	**328 931**

Conditions still to be met - remain liabilities (see note 16).

Figures in Rand	2019	2018

26. Government grants and subsidies (continued)

DME

Balance unspent at beginning of year	2 967	2 967
Current-year receipts	-	1 100 000
Conditions met - transferred to revenue	-	(1 100 000)
	2 967	**2 967**

Conditions still to be met - remain liabilities (see note 16).

EPWP: Public Works

Balance unspent at beginning of year	3 264	3 264
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 002 608)	(1 000 000)
	656	**3 264**

Conditions still to be met - remain liabilities (see note 16).

FMG

Balance unspent at beginning of year	221	1 660
Current-year receipts	1 970 000	1 900 000
Conditions met - transferred to revenue	(1 968 671)	(1 901 439)
	1 550	**221**

Conditions still to be met - remain liabilities (see note 16).

SBDM LED Grants

Balance unspent at beginning of year	39 064	229 306
Conditions met - transferred to revenue	-	(190 242)
	39 064	**39 064**

Conditions still to be met - remain liabilities (see note 16).

The disclosure of SBDM LED Grants have been combined in line with their nature - this was previously disclosed LED Kapriver, LED:Initiative, SBDM: IDP Dev Support and SBDM: LED Mobile Project.

EC Greenest Town

Current-year receipts	300 000	-
Conditions met - transferred to revenue	(265 054)	-
	34 946	**-**

Conditions still to be met - remain liabilities (see note 16).

Provide explanations of conditions still to be met and other relevant information.

Water Services Infrastructure Grant

Current-year receipts	32 809 000	-
Conditions met - transferred to revenue	(32 809 000)	-
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

26. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 16).

Provide explanations of conditions still to be met and other relevant information.

27. Public contributions and donations

Standard Bank - donation	-	19 900
DSRAC - Laptops	-	50 834
Sarah Baartman District Municipality - PPE	12 100 566	-
	12 100 566	**70 734**

Sarah Baartman District Municipality donated the following assets during the current financial yeas -

Buildings to the value of:	R11 670 098
Office equipment to the value of:	R 92 750
Plant and Machinery to the value of:	R 13 150
Vehicles to the value of:	R 324 468

During the previous financial year, Standard Bank donated R19 900 in cash towards groceries for the elderly and DSRAC donated laptops in-kind to the value of R50 834 for library use.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

28. Employee related costs

Basic	76 642 755	69 365 781
Bonus	6 054 298	5 477 217
Allowances	3 830 398	3 217 066
Post-employment benefits	4 505 134	14 908 683
Medical aid - employer contributions	9 497 662	8 865 354
UIF	801 056	752 255
Leave pay provision charge	377 755	214 651
SAMWU Pension backpay & Interest	12 232 433	1 410 165
Overtime payments	9 728 601	9 124 894
Car allowance	2 536 756	2 180 803
Housing benefits and allowances	796 950	869 950
Group Insurance	209 547	217 870
Industrial levy	50 278	47 392
	127 263 623	**116 652 081**

Remuneration of Municipal Manager

Annual Remuneration	875 651	876 122
Car Allowance	175 986	175 985
Performance Bonuses	26 777	38 196
Contributions to UIF, Medical and Pension Funds	196 161	189 466
Telephone allowance	15 535	15 535
13th Cheque	72 738	71 489
Leave pay	61 811	80 326
	1 424 659	**1 447 119**

Remuneration of Chief Finance Officer

Annual Remuneration	718 963	597 657
Car Allowance	180 000	165 000
Performance Bonuses	20 922	-
Contributions to UIF, Medical and Pension Funds	163 761	140 305
Telephone allowance	24 000	22 000
13th Cheque	53 680	20 630
Leave pay	74 176	32 664
	1 235 502	**978 256**

Remuneration of Director Infrastructural Development

Annual Remuneration	755 760	707 664
Car Allowance	204 000	204 000
Performance Bonuses	31 383	29 635
Contributions to UIF, Medical and Pension Funds	52 077	31 922
Telephone Allowance	36 000	36 000
13th Cheque	55 719	50 403
Leave pay	64 269	-
	1 199 208	**1 059 624**

Remuneration of Director Corporate Services

Annual Remuneration	841 524	784 158
Car Allowance	144 000	132 000
Performance Bonuses	42 844	19 756
Contributions to UIF, Medical and Pension Funds	128 066	62 117
Telephone Allowance	12 000	11 000

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

28. Employee related costs (continued)

13th Cheque	60 199	27 013
Leave pay	63 260	27 577
	1 291 893	**1 063 621**

Remuneration of Director Community Protection Services

Annual Remuneration	680 735	644 751
Car Allowance	180 000	180 000
Performance Bonuses	20 922	29 635
Contributions to UIF, Medical and Pension Funds	162 985	152 670
Telephone Allowance	24 000	24 000
13th Cheque	53 680	37 037
Leave pay	42 759	39 109
	1 165 081	**1 107 202**

29. Remuneration of councillors

Mayor	860 274	828 500
Speaker	696 294	508 476
Executive Members	1 150 894	1 089 350
Councillors	4 472 609	4 442 499
	7 180 071	**6 868 825**

Councillors - Existing Council

Mayor	860 274	828 500
Speaker	696 294	506 853
Executive Member: T Mazana	383 663	370 548
Executive Member: N Xhasa	383 568	370 244
Executive Member: LR Schenk	383 663	370 548
MPAC Chair - T.M Mbunge	373 500	360 476
Chief Whip - A.L Marasi	299 876	289 680
N. Ngamlashe	299 919	289 723
A. Ngqosha	300 069	290 168
C.B James	300 001	290 121
M. Raco	300 001	289 158
J.P Guest	300 069	290 168
M.W Yali	300 001	289 941
M.E Njibana	299 919	289 723
M. Mateti	299 919	289 723
K. Daweti	298 992	290 001
P.Y Kani	300 069	290 168
L. Shahzad	178 613	290 168
S. Venene	300 069	290 168
T. Mbekela	300 001	290 001
X. Runeli	121 570	-
	7 280 050	**6 866 080**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

30. Depreciation and amortisation

Property, plant and equipment	30 622 440	32 519 216
Investment property	1 176 124	1 176 395
Intangible assets	518 897	1 369 574
	32 317 461	**35 065 185**

31. Finance costs

Non-current borrowings	1 302 291	1 507 849
Late payment of tax	292	-
	1 302 583	**1 507 849**

32. Debt impairment

Contribution to debt impairment provision	27 238 121	28 484 691

33. Bulk purchases

Electricity - Eskom	48 471 746	47 216 996
Water	11 546 056	10 336 928
	60 017 802	**57 553 924**

34. General expenses

Advertising	547 136	493 189
Auditors remuneration	4 813 909	4 219 731
Bank charges	722 777	414 030
Commission paid	1 518 287	1 393 289
Consulting and professional fees	318 495	1 822 596
Delivery expenses	12 266	13 595
Electricity	9 957 197	4 917 854
Entertainment	2 102	11 600
Hire	5 042 833	2 813 640
Insurance	2 035 471	1 911 048
IT expenses	3 980 420	3 144 311
Levies	1 257 808	1 019 118
Fuel and oil	4 882 227	4 417 716
Postage and courier	1 193 338	1 029 040
Printing and stationery	77 911	263 215
Protective clothing	1 273 398	1 106 735
Subscriptions and membership fees	1 460 180	1 280 691
Telephone and fax	3 521 548	3 458 381
Transport and freight	579 393	243 855
Training	-	24 508
Travel - local	2 984 655	2 465 530
Title deed search fees	164 928	8 822
Other materials	7 201 399	7 056 229
Other expenses	2 017 658	2 995 646
	55 565 336	**46 524 369**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

35. Fair value adjustments

Other financial assets		
• Old Mutual Shares	(88 237)	28 445
• FV Adjustment of Landfill rehabilitation provision	(5 983 218)	(5 173 357)
	(6 071 455)	**(5 144 912)**

36. Auditors' remuneration

Fees	4 813 909	4 219 731

37. Cash generated from operations

Surplus	52 394 389	15 018 271
Adjustments for:		
Depreciation and amortisation	32 317 461	35 065 185
Gain on sale of assets and liabilities	3 131 177	438 333
Fair value adjustments	6 071 455	5 144 912
Debt impairment	27 238 121	28 484 691
Movements in operating lease assets and accruals	(14 601)	(43 923)
Movements in retirement benefit assets and liabilities	(2 425 548)	1 487 894
Movements in provisions	(88 238)	28 446
Receipts of assets - Non-Exchange	(12 100 567)	(70 734)
Changes in working capital:		
Inventories	(479 181)	(130 560)
Consumer debtors	(34 094 136)	(35 163 368)
Other receivables	(150 198)	(84 428)
Payables from exchange transactions	(16 584 139)	8 976 034
VAT	(681 210)	7 163 706
Unspent conditional grants and receipts	(1 500 811)	(11 689 566)
Consumer deposits	89 245	115 358
	53 123 219	**54 740 251**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	24 248 680	8 169 897
Total capital commitments		
Already contracted for but not provided for	24 248 680	8 169 897

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	203 861	325 883
- in second to fifth year inclusive	209 836	78 360
	413 697	**404 243**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	216 630	280 485
- in second to fifth year inclusive	465 470	658 254
- later than five years	16 005	21 222
	698 105	**959 961**

Certain of the municipality's equipment is held to generate rental income. Lease agreements are non-cancellable and have terms from 3 to 20 years. There are no contingent rents receivable.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

39. Contingencies

Campbell and Shelton vs Ndlambe LM- The claimant has instituted procedings to suspend all approvals for building development on wetland area in Port Alfred. The financial effect of this cannot be determined.

KOSRA, Bushmans Kariega Estuary Care Management Forum & Natures Landing Homeowners Association vs Ndlambe LM - Legal procedings have been instituted against the municipality regarding the state of the landfill site at Bushmans and to put measures in place to rectify the state of the landfill. The financial effect of this cannot be estimated as the financial claim has not been made.

Agri EC vs Ndlambe Municipality & others - Agric EC has taken Ndlambe Municipality to court to force the municipality to apply its by-laws. This matter is ongoing, but as a financial claim was not made, the financial effect cannot be estimated.

The case between the Municipal Workers Retirement Fund (MWRF) (previously SAMWU) and Ndlambe Muncipality was negotiation in relation to the late payment of pension fund contributions for the period 2007 to 2013. The employer(municipal) contribution portion was disclosed as part of trade and other payables. The amount relating to the employee contribution along with the interest thereon was however in dispute. This matter went to court after the 2018 year end and resulted in the court ruling that Ndlambe Municipality be held liable for both employee and employer contributions along with interest thereon. The estimated portion relating to the amount which was in dispute relating to the employee contribution and interest thereon was not recognised as a liability as the amount was not considered as a probable outflow at year end 2018.
The estimate amount claimed for by the MWRF along with interest amounted to R13 649 186. At year end R 9 244 136 was recognised as a liability in accordance with the accrual principal and corresponding amounts restated retrospectively in accordance with the new interest calculations. The contingent amount as at year end 2018 relates to R 3 851 774, which represents the employee contributions and related interest to this date.

Litigation is in the process against the municipality relating to various matters. The total estimated potential liability to the municipality at 30 June 2019 cannot be determined reliably. (2018: R 3 851 774)

40. Related parties

Related party balances

Receivables		
Department of Roads and Public Works	1 365 300	197 183
National Department of Roads and Public Works	1 601 558	1 254 534
Deparment of Health	196 546	127 540
Department of Rural Development and Agrarian reform	8 685	12 113
Department of Education	221 659	142 474
Department of Rural Development and Land reform	494 689	606 418

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

41. Prior period errors & reclassification

The correction of the error(s) results in adjustments as follows:

2018 Closing balance / 2019 Opening balances:

Statement of Financial Position	Previously reported	Adjustment	As restated	Reference
Receivables from Non-exchange Transactions	10 500 933	(9 682 757)	818 176	1
Receivables from Exchange Transactions	13 948 764	(13 948 764)	-	2
Consumer debtors	-	23 631 525	23 631 525	3
Intangible assets	2 489 592	(1 369 574)	1 120 018	4
Property, plant and Equipment	606 583 794	(175 602)	606 408 192	5
Payables	(49 628 477)	(6 055 621)	(55 684 098)	6
VAT Payable	(10 520 128)	5 200 821	(5 319 307)	7
Accumulated surplus	(705 020 509)	2 399 972	(702 620 537)	8
	(131 646 031)	**-**	**(131 646 031)**	**-**

1 - Receivables from Non-Exchange transactions - Statement of Financial Position	
Previously reported 2018 balance	10 500 933
Classification of Consumer debtors balances	(9 682 757)
Restated 2018 Closing balance	**818 176**

2 - Receivables from exchange transactions - Statement of Financial Position	
Previously reported 2018 balance	13 948 764
Classification of Consumer debtors balances	(13 948 764)
Restated 2018 Closing balance	**-**

3 - Consumder Debtors - Statement of Financial Position	
Classification from Receivables from Non-exchange transactions	9 682 757
Classification from Receivables from Exchange transactions	13 948 764
Restated 2018 Closing Balance	**23 631 521**

4- Intangible assets - Statement of Financial Position	
Previously reported 2018 balance	2 489 592
Recording of depreciation not raised in 2018	(1 369 574)
Restated 2018 Closing Balance	**1 120 018**

5 - Payables - Statement of Financial Position	
Previously reported 2018 balance	(49 628 477)
Correction of prior period accruals	(398 517)
Correction of SALA Liability	(958 529)
Correction of SAMWU Liability - Pre 2018 Interest	(3 288 410)
Correction of SAMWU Liability - 2018 Interest	(1 410 165)
Restated 2018 Closing Balance	**(55 684 098)**

6 - Property, plant and equipment- Statement of Financial Position	
Previously reported 2018 balance	606 583 794
Disposal of Obsolete Motor vehicles during 2018	(129 876)
Disposal of obsolete Machinery and Equipment 2018	(45 724)
Restated 2016 Closing balance	**606 408 194**

7 - VAT Payable - Statement of Financial Position

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

41. Prior period errors & reclassification (continued)

Previously reported 2018 balance		(10 520 128)
Correction of Prior period VAT due to VAT claimed not journalised		5 200 821
Restated 2018 Closing balance		**(5 319 307)**

8 - Accumulated Surplus - Statement of Financial Position

Previously reported 2018 Opening balance	(686 648 380)
Effect of opening balance corrections relating to -	(953 882)
Correction of Prior period VAT due to VAT claimed not journalised	(5 200 821)
Correction of SALA Liability	958 529
Correction of SAMWU Liability - Pre 2018 Interest	3 288 410
RESTATED 2017/18 OPENING BALANCE	(687 602 262)
	-
RESTATED 2017/18 (Surplus)/Deficit	(15 018 271)
Previously reported Surplus	(18 372 123)
Net corrections as per 2017/18 Statement of Financial Performance (see below)	3 353 852
	-
RESTATED 2017/18 CLOSING BALANCE	**(702 620 533)**

	2018 Comparative restatements			
Statement of Financial Performance	Previously reported	Adjustment DT/(CT)	As restated	Reference
REVENUE				
Service Charges	119 879 874	3 771 048	116 108 826	i
Environmental levies	-	(3 771 048)	3 771 048	ii
EXPENDITURE				
Employee related costs	(126 759 680)	(4 451 777)	(122 307 903)	iii
Depreciation and Amortisation	(33 695 611)	1 369 574	(35 065 185)	iv
Repairs and Maintenance	(15 199 853)	(15 199 853)	-	v
Bulk purchases	(55 456 438)	2 097 486	(57 553 924)	vi
Renewable Energy Programme	(2 741 463)	(2 741 463)	-	vii
Contracted services	(20 845 807)	16 289 692	(37 135 499)	viii
Transfers and subsidies	(1 197 767)	697 409	(1 895 176)	ix
General expenses	(41 407 184)	5 117 185	(46 524 369)	x
Gain/Loss on Disposal	(262 734)	175 599	(438 333)	xi
	(177 686 663)	**3 353 852**	**(181 040 515)**	

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

41. Prior period errors & reclassification (continued)

i) Service Charges - Statement of Financial Performance

As previously reported	119 879 874
Correction of classification of Environmental levies as Non-exchange revenue	(3 771 048)
	116 108 826

ii) Environmental Levies - Statement of Financial Performance

Correction of classification of Environmental levies as Non-exchange revenue	3 771 048
	3 771 048

iii) Employee Related costs - Statement of Financial Performance

As previously reported	(126 759 680)
Reclassification of Casual workers as Contracted Services	4 373 858
Reclassification of Skills Development Levy as General expenditure	1 019 217
Reclassification of Workmen's Compensation as General expenditure - other expenditure	490 337
Correction of SAMWU Liability - 2018 Interest	(1 410 165)
Additional Accrued Expenditure raised 2018	(21 444)
	(122 307 877)

iv) Depreciation - Statement of Financial Performance

As previously reported	(33 695 611)
Recording of depreciation not raised in 2018	(1 369 574)
	(35 065 185)

v) Repairs and Maintenance - Statement of Financial Performance

As previously reported	(15 199 853)
Reclassification of contractor expenditure to Contracted services	8 790 674
Reclassification of Other Materials to General expenditure	6 409 179
	-

vi) Bulk purchases - Statement of Financial Performance

As previously reported	(55 456 438)
Reclassification of Gel stoves from Renewable energy programme	(2 097 486)
	(57 553 924)

vii) Renewable Energy Programmes - Statement of Financial Performance

As previously reported	(2 741 463)
Reclassification of Gel stoves to Bulk purchases	2 097 486
Reclassification of Materials used to General expenditure	643 977
	-

Figures in Rand	2019	2018

41. Prior period errors & reclassification (continued)

viii) Contracted Services - Statement of Financial Performance

As previously reported		(20 845 807)
Reclassification of Casual workers as Contracted Services		(4 373 858)
Reclassification of contractor expenditure from Repairs and Maintenance		(8 790 674)
Classification from General exp - Security and legal		(4 625 691)
Classification to General exp - Business consultants		1 822 808
Additional Accrued Expenditure raised 2018		(322 281)
		(37 135 503)

ix) Transfers and Subsidies - Statement of Financial Performance

As previously reported		(1 197 767)
Reclassification of General expenditure to Transfers and Subsidies		(721 918)
Reclassification of Transfers and Subsidies to General expenditure		24 509
		(1 895 176)

x) General Expenses - Statement of Financial Performance

As previously reported		(41 407 184)
Reclassification of General expenditure to Transfers and Subsidies		721 918
Reclassification to Contracted services - Security and legal		4 625 691
Reclassification of Skills Development Levy as General expenditure		(1 019 217)
Reclassification of Workmen's Compensation as General expenditure - other expenditure		(490 337)
Reclassification of Other Materials to General expenditure		(6 409 179)
Reclassification of Materials used to General expenditure		(643 977)
Classification to Gen exp from Contracted services -Business consultants		(1 822 808)
Reclassification of Transfers and Subsidies to General expenditure		(24 509)
Additional Accrued Expenditure raised 2018		(54 792)
		(46 524 394)

xi) Loss on disposal of assets- Statement of Financial Performance

As previously reported		(262 734)
Disposal of Obsolete Motor vehicles during 2018		(129 876)
Disposal of obsolete Machinery and Equipment 2018		(45 724)
		(438 334)

The above reclassifications were affected to achive better allignment with the MSCOA which aims to allign classificaton across all local government. The reclassification was done in accordance with GRAP 1 and GRAP 3 in that after a review of the financial statements, the new classification and presentation is considered to be more appropriate having regard to the criteria for the selection and application of accounting policies. Accounting policies were not amended, however the principal of reporting expenditure by nature was better and more reliably adhered to.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

42. Unauthorised expenditure

Opening balance as previously reported	166 445 669	121 150 743
Correction of prior period error	3 509 017	-
Opening balance as restated	**169 954 686**	**121 150 743**
Add: Unauthorised Expenditure - prior period	-	48 803 943
Add: Unauthorised Expenditure - current	46 782 376	-
Closing balance	**216 737 062**	**169 954 686**

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

Non-cash	24 830 576	38 253 142
Cash	21 951 800	10 550 801
	46 782 376	**48 803 943**

Unauthorised expenditure: Budget overspending – per municipal department

Executive and Council	-	6 341
Finance Budget and Treasury	-	11 082 738
Corporate Services	1 030 729	4 149 348
Waste Management	5 649 009	6 068 216
Electricity	15 835 800	12 924 527
Water	9 390 720	-
Waste Water Management	7 204 736	4 735 801
Technical	7 671 381	9 836 972
	46 782 375	**48 803 943**

Disciplinary steps taken/criminal proceedings

43. Fruitless and wasteful expenditure

Opening balance as previously reported	382 028	367 808
Correction of prior period error - SAMWU Interet	4 698 575	3 288 410
Opening balance as restated	**5 080 603**	**3 656 218**
Add: Fruitless and wasteful expenditure	5 963 559	14 220
Add: Prior Year correction - SAMWU	-	1 410 165
Closing balance	**11 044 162**	**5 080 603**

44. Irregular expenditure

Opening balance as previously reported	441 048 932	368 591 883
Correction of prior period error	30 456 544	(410 581)
Opening balance as restated	**471 505 476**	**368 181 302**
Add: Irregular Expenditure - prior period -restated	-	103 324 174
Add: Irregular expenditure - current	92 248 723	-
Closing balance	**563 754 199**	**471 505 476**

Incidents/cases identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings	
- Supply Chain Management Regulation and/or . Policy deviations - Lack of supporting information - Deviations not in accordance with S36 of SCM regulations	Items have been referred to MPAC for investigation and the need for criminal procedings to be determined Goods and/or services were received in all instances and none of the payments were made in vain.	92 248 723

Figures in Rand	2019	2018

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2019	2018
Opening balance	1 329 074	1 351 297
Current year subscription / fee	1 615 358	1 362 801
Amount paid - current year	(1 464 505)	(1 385 024)
	1 479 927	**1 329 074**

Audit fees

	2019	2018
Opening balance	28 029	26 842
Current year expenditure	4 933 926	4 820 912
Amount paid - current year	(4 946 943)	(4 810 515)
Credit note	(15 012)	(9 210)
	-	**28 029**

PAYE and UIF

	2019	2018
Amount paid - current year	15 734 601	13 379 542

Pension and Medical Aid Deductions

	2019	2018
Amount paid - current year	22 722 255	20 293 365

VAT

	2019	2018
VAT payable	4 638 097	5 319 307

VAT output payables and VAT input receivables are shown in note 17.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
Councillor ME Njibana	699	800	1 499

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
Councillor ME Njibana	719	201	920
Councillor T Mazana	680	430	1 110
Councillor N Ngamlashe	1 098	3 283	4 381
Councillor AL Marasi	482	1 390	1 872
Councillor A Ngqosha	1 477	24 283	25 760
	4 456	**29 587**	**34 043**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident		
S36(1)(a)(i) - Emergency	3 957 840	4 166 715
S36(1)(a)(ii) - Sole supplier	1 695 590	696 485
S36(1)(a)(v) - Impractical / Impossible (other)	58 918 624	30 955 618
	64 572 054	**35 818 818**

46. Water and electricity losses

Material Losses		
Water	27 094 112	23 138 494
Electricity	6 342 292	5 225 742
	33 436 404	**28 364 237**

Water Losses
In 2019 the water reticulation losses were 53 % (3 793 860 kl supplied and 1 783 911 kl sold) (2018: 49.9% (3 785 606 kl supplied and 1 898 290 kl sold). In both years these losses are predominantly due to physical losses from leaks, burst pipes and reservoir overflows. Furthermore apparent losses are realised due to metering inefficiencies, meter faults, unauthorised and unmetered consumption.

Electrcity Losses
In 2019, the energy losses were 13.57% (2018: 11.99%). Electricity purchased was 44 513 651 kWh and 38 473 372 kWh was sold (2018: 44 458 957 kWh purchased and 39 126 568 kWh sold). These losses are predominantly due to MV and LV losses in switchgear, overheadlines, obsolete aluminium lines, underground cables and transformers. Furthermore losses are attributed to metering and meter reading losses and losses due to tampering.

47. Budget differences

Material differences between budget and actual amounts

47. Budget differences (continued)

The Variances are considered to be material for the GRAP 24 variance disclosure where it exceeds 10%. Below are details of the relevant material variances as per the Statement of Budget versus Actual Comparison:

47.1) Service Charges:
The variance is due to an underbudgeting of the revenue from service charges as not all households were considered when determination of projected services charges were made.

47.2) Rendering of Services
The nature of burial fees is such that it is not easily forcast. The demand for plots and burial fees were however higher than expected which resulted in the variance.

47.3) Rental of Facilities and Equipment:
The variance is due to inadequate budgeting which is based on incremental budgeting that have resulted in the overstatement of the projected income from the rental of housing and other building rentals. This is furtehr compounded by the effect of straight-lining of leases not being taken into account.

47.4) Interest received - Trade and other receivables: Immaterial variance

47.5) Licences and permits:
The budgeting process relating to the forecast of licences and permits was flawed as there was an overestimate of the revenue and the figure budgeted for more closely relates to overall collections from motor vehicle licences and permits. This is mainly due to the cycle of licences and permits not being constant on a month to month basis; the forecast thereof is therefore not linear.

47.6) Housing debtor income:
The variance is due to inadequate budgeting processes based on incremental budgeting. This has resulted in the overstatement of the projected income from the rental of housing. The budget process does not include a zero based budgeting approach.

47.7) Other income :
The nature of other income is such that revenue from auxillary services is classified as Other income, such as building plan fees. The nature of these services, even based on past trends make it difficult to forecast.

47.8) Interest received - Investments :
Grant income along with cash holdings were spent later during the financial year. This has resulted in more interest being earned on investments. Additional interest income (over and above budgeted amounts) was realised on the grant investments due to timing delays in the spending of grant funding.

47.9) Dividends received
No dividends were received on the investments held

47.10) Property Rates: Immaterial variance

47.11) Environmental Levies:
The variance is due to an underbudgeting of the revenue from Environmental Levies as not all households were considered when determination of the budget was made.

47.12) Government grants and subsidies : Immaterial variance

47.13) Public contributions and donations:
The donations amount was not budgeted for as donations by its nature is gratuitous and were transfered as in-kind donations and there was not expectation to receive donations during the year.

47.14) Fines, penalties and forfeits:
The budget for fines, penalties and forfeits were prepared, with the expectation that the traffic vehicles would be in a functioning condition. The vehicles however remain unserviceable. This matter affected the prior period and was still relevant for 2016/17. This impacted on the amount of fines levied during the period.

47.15) Personnel: The variance of the budget versus actual is a result of unfunded positions within the muncipality remaining

47. Budget differences (continued)
unfunded. The variance is however below 10%.

47.16) Remuneration of councillors: Immaterial variance

47.17) Depreciation and Amortisation:
During the budget process the depreciation budget was drastically reduced to in turn reduce the impact to ratepayers and consumers as a result of increased rates. The depreciation budget is seen as a non-cash budget item where there will not be a reduction to an actual revenue flow to the municipality if the budget is reduced.

47.18) Finance Costs: Immaterial variance
The finance costs budget was based on the expected reduction of capital relating to the DBSA loans instead of the interest portion which accrued during the year. This resulted in the variance as identified.

47.19) Lease rentals on operating leases:
The variance is due to inadequate budgeting processes based on incremental budgeting that have resulted in the overstatement of the projected expenditure relating to operating leases. The budget process does not include a zero based budgeting approach on these leases.

47.20) Debt Impairment
A budget estimation was based on the actual write-off of doubtful debts during the current year. However due to increase in debtors and slow collections the increase in the provision in for doubtful debts was higher than anticipated, resulting in the expenditure exceding the budget.

47.21) Bulk Purchases:
The variance between budget and actual expenditure is mainly due to underbudgeting. The Eskom increases were also approved in excess of budget parameters.

47.22) Contracted Services:
Contracted services is dependant largely on the requirement for specialist based on the specific criteria relating to repairs and maintenance requirements of the municipality. The variance is however not considered material.

47.23) Transfers and subsidies
The budget was adjusted with the ommission of certain transfers and subsidies paid.

47.24) General expenses: Immaterial variances

47.25) Loss on disposal of assets:
The disposals of movable & immovable assets based on the derecognition of obsolete assets resulted in unbudgeted losses which contributed towards the variance between budget actual expenditure.

47.26) Fair value adjustments:
At the time of the budget a nominal budget is provided for fair value adjustments. It is also not known at the time of the budget what the effect of external factors would be on the landfill provision estimate. As such budget is not provided to the extent of the actual fair value losses incurred as this would have to be funded with revenue through rate increases.

48. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance.

48. Risk management (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Receivables from non-exchange transactions	818 176	818 176
Consumer debtors	30 487 540	23 631 524
Cash and cash equivalents	45 325 049	64 263 364
Other financial assets	59 389	147 626

The municipality holds deposits of R1 999 159 (2018: R 1 999 159) from consumer deposits. No guarantees of collateral was provided to third parties.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates which means that the municipality is not exposed to interest rate risk, as any change in interest rates will not affect the repayment terms of the long term liabilities. During 2019 and 2018, the municipality had no borrowings at variable rates.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other payables		39 099 959	-	-	-	-
Financial liabilities - DBSA Loans	8.8 % - 17%	3 198 595	3 198 595	3 198 595	3 198 595	420 738

Notes to the Annual Financial Statements

48. Risk management (continued)

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the consolidated statement of financial position either as available-for-sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality.

49. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

50. Events after the reporting date

No adjusting events after the reporting date have been identified.